

Message Text

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ACTION EUR-12

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AMEMBASSY JIDDA

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E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJECT: EC COMMON BORROWING FACILITY -- PROGRESS ON PROPOSED
LOANS TO ITALY AND IRELAND

REF: EC BRUSSELS 1627

1. BEGIN SUMMARY: COMMISSION OFFICIALS ARE LOSING HOPE OF OBTAINING AN

EC BORROWING FOR IRELAND FROM SAUDI ARABIA. THEY ARE NOW CONSIDERING
SEVERAL POSSIBLE PLACEMENTS ON EUROPEAN CAPITAL MARKETS, INVOLVING
BOTH FIXED AND VARIABLE INTEREST RATES. CONSULTATIONS WITH ITALY
TO TIGHTEN EC 1976 ECONOMIC POLICY CONDITIONS ARE GOING WELL.
END SUMMARY.

2. EC COMMISSION OFFICIALS TELL US THAT THE SAUDI ARABIAN MONETARY
AGENCY (SAMA) STILL HAS NOT RESPONDED TO THE COMMISSION REQUEST
THAT SEVERAL TECHNICAL REQUIREMENTS FOR THE PROPOSED EC BORROWING
FOR IRELAND BE CHANGED. THE COMMISSION ALSO WANTS TO REDUCE THE
INTEREST RATE FOR THE PROPOSED BORROWING. SAMA HAS BEEN ASKED TO
REPLY BY FEBRUARY 27. AT THIS POINT, COMMISSION OFFICIALS BELIEVE
THE LOAN IS LIKELY TO FALL THROUGH. THEY CONSEQUENTLY ARE PLANNING TO

BORROW THE FUNDS FOR EC LOANS TO IRELAND WAS

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WELL AS ITALY ON INTERNATIONAL CAPITAL MARKETS, TOTALLING ABOUT

\$1.3 BILLION.

3. COMMISSION OFFICIALS ADD THAT AT LEAST SOME FRG AND DUTCH AUTHORITIES CONTINUE TO OBJECT TO AN EC COMMON BORROWING IN THE EUROCURRENCY MARKET WITH A VARIABLE INTEREST RATE. FOR THIS REASON, THE COMMISSION IS EXPLORING THE POSSIBILITY OF SEVERAL DISTENCT BORROWINGS: (1) A EUROCURRENCY BORROWING FOR FIVE YEARS WITH A FIXED INTEREST; SOME BANKS HAVE OFFERED LOANS OF THIS TYPE; (2) A PLACEMENT ON THE EUROBOND MARKET FOR A FIXED INTEREST RATE; ADDITIONAL TIME IS REQUIRED TO ARRANGE FOR SUCH A PLACEMENT AND CONSEQUENTLY THIS BORROWING MIGHT FOLLOW A EUROCURRENCY PLACEMENT BY A MONTH OR SO; AND (3) A EUROCURRENCY BORROWING AT A VARIABLE INTEREST RATE FOR NO MORE THAN HALF OF THE TOTAL BORROWING. DESPITE NASH'S VIEW THAT A FIXED INTEREST RATE EUROCURRENCY BORROWING WOULD BE IMPRACTICAL (PARA 3, REFTEL, OTHER COMMISSION OFFICIALS ARE HOPEFUL THAT SUCH A COMBINATION WOULD IN PART ALLAY FRG AND DUTCH CONCERNS SO THAT THE FINANCE COUNCIL COULD APPROVE THE BORROWING ON MARCH 15.

4. THESE OFFICIALS REPORT THAT THEIR INITIAL DISCUSSIONS WITH ITALIAN AUTHORITIES REGARDING REVISED 1976 ECONOMIC POLICY CONDITIONS HAVE GONE WELL. THE GOI SEES THESE CONDITIONS AS AN OPPORTUNITY TO REINFORCE THE GOI'S NEW ECONOMIC PROGRAM. THE GOI HAS AGREED TO PLACING SPECIFIC RESTRAINTS ON PUBLIC EXPENDITURES AND BORROWINGS FROM THE CENTRAL BANK. HINTON

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